# Utah Department of Insurance
# Fraud Division

# 2011 FY Annual Report

**Department of Insurance - Commissioner Neal T. Gooch**

**Fraud Division - Director Armand A. Glick**

# Utah Department of Insurance
# Fraud Division

## Overview

The Utah Department of Insurance is the state regulatory authority for the insurance industry and is responsible for enforcing all insurance-related laws of the State of Utah.

The Mission of the Utah Department of Insurance is to foster a healthy insurance market by promoting fair and reasonable practices that ensure available, affordable and reliable insurance products and services.

The mission of the department will be accomplished by educating, serving and protecting consumers, governmental agencies and insurance industry participants at a reasonable cost.

We cooperate with and serve state and other governmental agencies in fulfilling these responsibilities.

While one of the Department's objectives is to investigate regulatory violations, the Department's Fraud Division was created in 1996 with the mission of investigating criminal insurance fraud. The Insurance Fraud Division Investigators are Utah POST certified Special Function Police Officers.

The Fraud Division works closely with insurance company investigators, local law enforcement, federal law enforcement, private non-profit organizations such as the National Insurance Crime Bureau (NICB), as well as state and federal prosecutors to bring both consumer and industry offenders to justice.

Incoming cases, tips, and complaints of possible fraud are received from a variety of sources. Most cases are received from NICB, Special Investigative Units (SIU) within the insurance industry, other law enforcement agencies, and citizens.

When a tip or complaint is received, it is reviewed to determine whether further investigation is merited. Cases are then assigned to an investigator, who pursues all possible leads, conducts interviews, and gathers evidence.

When the investigation is complete, the investigator presents the case to the Attorney Generals Office which is contracted to provide dedicated attorneys to prosecute insurance fraud. These attorneys are housed in the same office with the investigators. This coordinated approach results in greater success in case prosecution and resolution.

# Insurance Fraud Division

## What is Insurance Fraud?

Insurance Fraud may be committed by the consumer, the insurer, or service providers. Insurance industry studies indicate 10 percent or more of property/casualty insurance claims are fraudulent. And fraud is the second most costly white-collar crime in America behind tax evasion.

The National Health Care Anti-Fraud Association conservatively estimates that 3% or $70 billion is lost to health care fraud. Other law enforcement estimates place this as high as 10% or $234 billion each year.

The Coalition Against Insurance Fraud estimates that Insurance Fraud costs Americans more that $96 billion annually. The Coalition also believes that up to 30 percent of a policy holder's insurance premium are due to charges added to cover industry losses from insurance fraud.

## How much is $96 Billion?

The amount is so vast that most people cannot truly appreciate its impact. Suppose you were given $130,000 with the stipulation that you must spend it all today. If you were given $130,000 dollars to be spent EVERY day beginning in the year 0 A.D. you would finally spend $80 billion in the year 2011!

## Consumer scams:

Insurance fraud happens when people deceive an insurance company to collect money to which they aren't entitled. Padding a burglary claim or lying about where you register your car to lower your auto premiums are two examples of smaller "soft" fraud. Burning down your home for insurance money or taking part in staged accidents are examples of "hard" fraud.

## Insurer fraud:

Insurance agents can steal your premiums and not buy the promised coverage, leaving you unprotected. A dishonest insurer claims employee can steal your claim checks, and fake insurers can sell you bogus policies. Crooked health insurers can pad Medicare or Medicaid claims for profit.

## Provider fraud:

Health care providers, contractors, and others may artificially inflate their billings to insurance. They may bill for work they claim to have performed when they have not; or bill for an increased level of service than they really provided.

These are just a few examples of insurance fraud.

# Insurance Fraud Division

## Vision:

The Vision of the Insurance Fraud Division is to gain State and National recognition as a leader in the fight against insurance fraud.

## Mission:

The Fraud Division acts as the primary law enforcement agency in the State of Utah for investigating suspected fraudulent insurance claims. The core mission of the Insurance Fraud Division is to protect the public from economic loss and distress. We do this by actively investigating, prosecuting, and seeking restitution from those who commit insurance fraud. We further seek to deter insurance fraud through active public awareness education.

## Outreach Accomplishments:

The Insurance Fraud Division in cooperation with the National Insurance Crime Bureau (NICB) host six information sharing meetings each year with Insurance Company Special Investigative Units. This meeting creates opportunities for participants to share trends and concerns regarding insurance fraud occurring within the State of Utah.

The Insurance Fraud Division co-sponsored the Second Annual Health Care Fraud and Abuse Symposium in conjunction with Regence Blue Cross Blue Shield, Select Health, Progressive Insurance, Health Care Insight, and the National Insurance Crime Bureau. This one day training was hosted at the Intermountain Medical Center training room and was attended by over 100 investigators from public safety agencies and private insurance companies.

The Insurance Fraud Division also co-sponsored and hosted a training seminar with the Utah Association of Special Investigative Units held in September of 2010 at the State Office Building. This training was also attended by nearly 100 investigators.

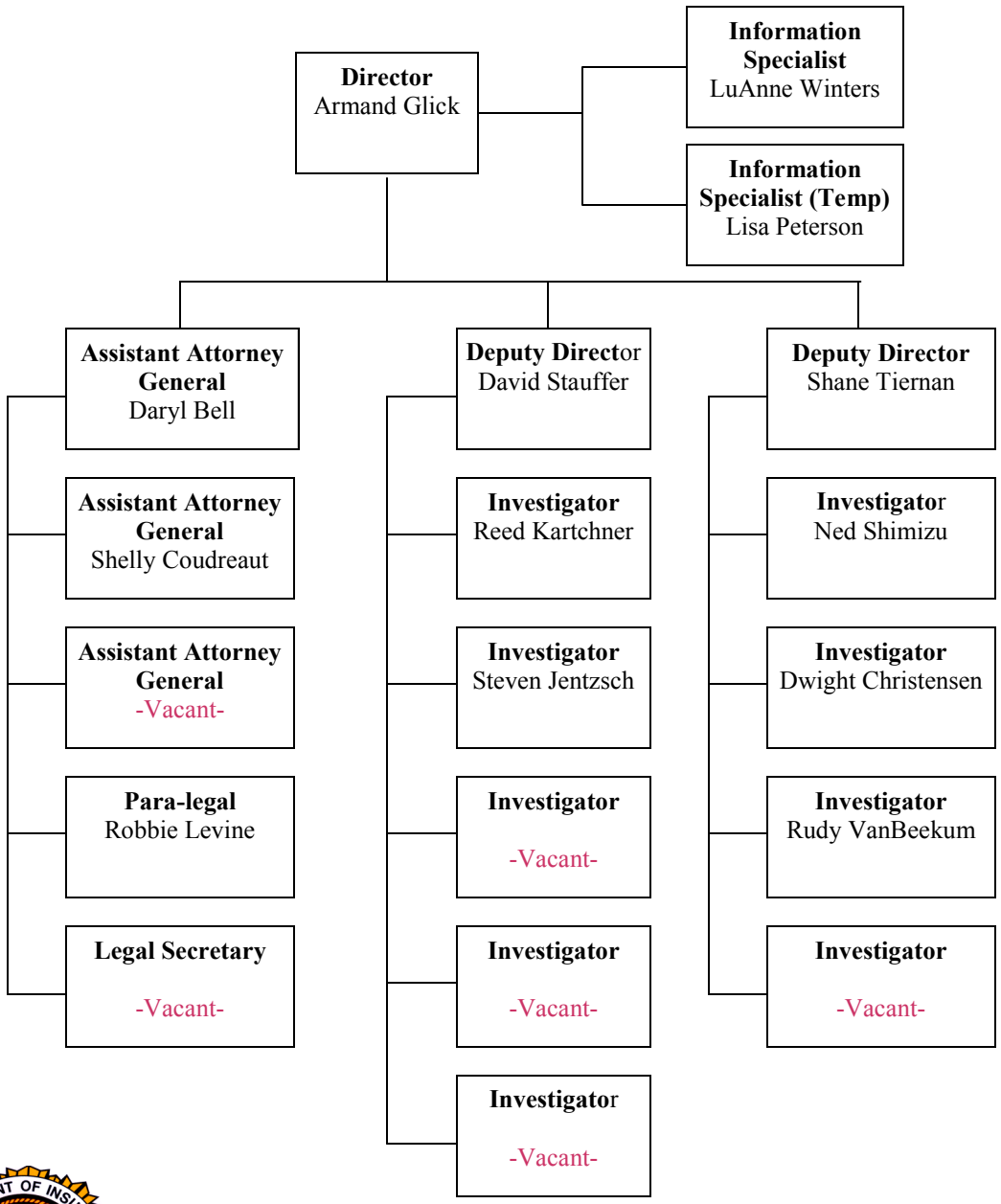
The Fraud Division participates in the Utah Pharmaceutical Drug Crime Project which is a multi-agency task force targeting pharmaceutical drug crimes. The Fraud Division's focus as a member of this task force is on drug seekers, also known as doctor shoppers, who utilize insurance to pay for unnecessary doctor visits and medications.

The Fraud Division also participates in the FBI Mortgage Fraud Task Force. The Fraud Divisions focus as a member of this task force is escrow agents or others whose actions fall under mortgage insurance or title insurance fraud.

# Insurance Fraud Division Staffing

The Insurance Fraud Division (IFD) consists of a Director, ten criminal investigators, and two information specialists. In addition the Fraud Division contracts with the Utah Attorney Generals Office to provide three Assistant Attorney Generals who are dedicated to prosecuting Insurance Fraud Division cases, along with two support staff.

In 2008 the Utah State Legislature passed the Mandatory Reporting Law and approved eight additional investigator allocations. However these new allocations have not yet been funded. In addition, due to current budget conditions, the IFD temporarily reduced investigator positions by three positions. A fourth position was left unfilled for much of the year. In conjunction with the investigator reductions, as of October 2010 the IFD also reduced attorney staff by one from the Attorney Generals Office and eliminated a clerical position.



# Insurance Fraud Division Budget

The Insurance Fraud Division is funded entirely from assessment fees charged to all insurance companies doing business in the State of Utah. This assessment is based on total premiums sold during the prior year. These revenues are used to pay the core expenses of the Fraud Division.

In addition, the Insurance Fraud Division is allowed by state law to recover the costs of their investigations from subjects who are prosecuted. Recovering investigative costs provides primary funding to pay for investigator and prosecutor travel expenses throughout the State of Utah. Without these funds, investigations outside of the Wasatch Front, would be financially limited.

Unspent assessment and restitution funds are placed in a non-lapsing account which ensures the funds are protected and can be carried over from year to year for use by the Fraud Division.

## FY 2011 Final Budget

**Revenues:**

| | |
|---|---|
| Insurance Industry Assessment Fees: | $1,531,650 |
| Non-lapsing Funds Carryover from FY 2010: | $73,923 |
| Investigative Costs Collected in FY 2011: | $84,769 |
| Fines and Forfeitures (victim Restitution): | $248,516 |
| **Total Revenues:** | **$1,951,537** |

**Expenditures:**

| | |
|---|---|
| Fraud Division Staff Salaries and Benefits (13 Staff): | $789,810 |
| In State Investigative Travel and Motor Pool: | $4,366 |
| Out of State Travel: | $12,962 |
| Attorney General Prosecution Contract (4 Staff): | $334,113 |
| Building Lease: | $114,690 |
| Investigator Vehicles: | $64,742 |
| Office Supplies: | $4,225 |
| Wireless Communications: | $9,061 |
| Data Processing: | $50,337 |
| Misc Expenses: | $52,359 |
| Victim Restitution: | $248,516 |
| **Total Expenditures:** | **$1,685,181** |
| Non-lapsing Funds carryover into FY 2011: | $73,923 |

# Insurance Fraud Division Current Budget

The assessment funds expected for this coming year have stabilized from the declines in the past few years. Last year we had a large turnover of investigative staff and several positions went un-filled for periods of time before replacement investigators were hired. We also had one investigator serve 9 months in military service. We have reduced staffing through attrition the past few years to remain within budget. We anticipate adding a Para legal and an attorney this year to fill open positions vacated in the past year.

## FY 2012 Projected Budget

**Projected Revenue:**

| | |
|---|---|
| Insurance Industry Assessment Fees: | $1,537,600 |
| Non-lapsing Funds Carryover from FY 2010: | $266,356 |
| Investigative Costs Collected (Estimate): | $80,000 |
| Fines and Forfeitures (Victim Restitution) Estimate: | $250,000 |
| **Total Expected Revenues:** | **$2,133,956** |

**Projected Expenses:**

| | |
|---|---|
| Fraud Division Staff Salaries and Benefits (11 Staff): | $982,414 |
| Attorney Generals Office (3 Staff): | $460,000 |
| Building Lease: | $116,000 |
| Investigator Vehicles: | $65,000 |
| Data Processing: | $50,000 |
| Wireless Communications: | $9,000 |
| Instate Travel: | $10,000 |
| Out of State Travel: | $14,000 |
| Office Supplies: | $7,000 |
| Misc Expenses: | $50,000 |
| Victim Restitution Estimate: | $250,000 |
| **Total Projected Expenses:** | **$2,013,414** |
| Projected Carryover to FY 2012 | $120,542 |

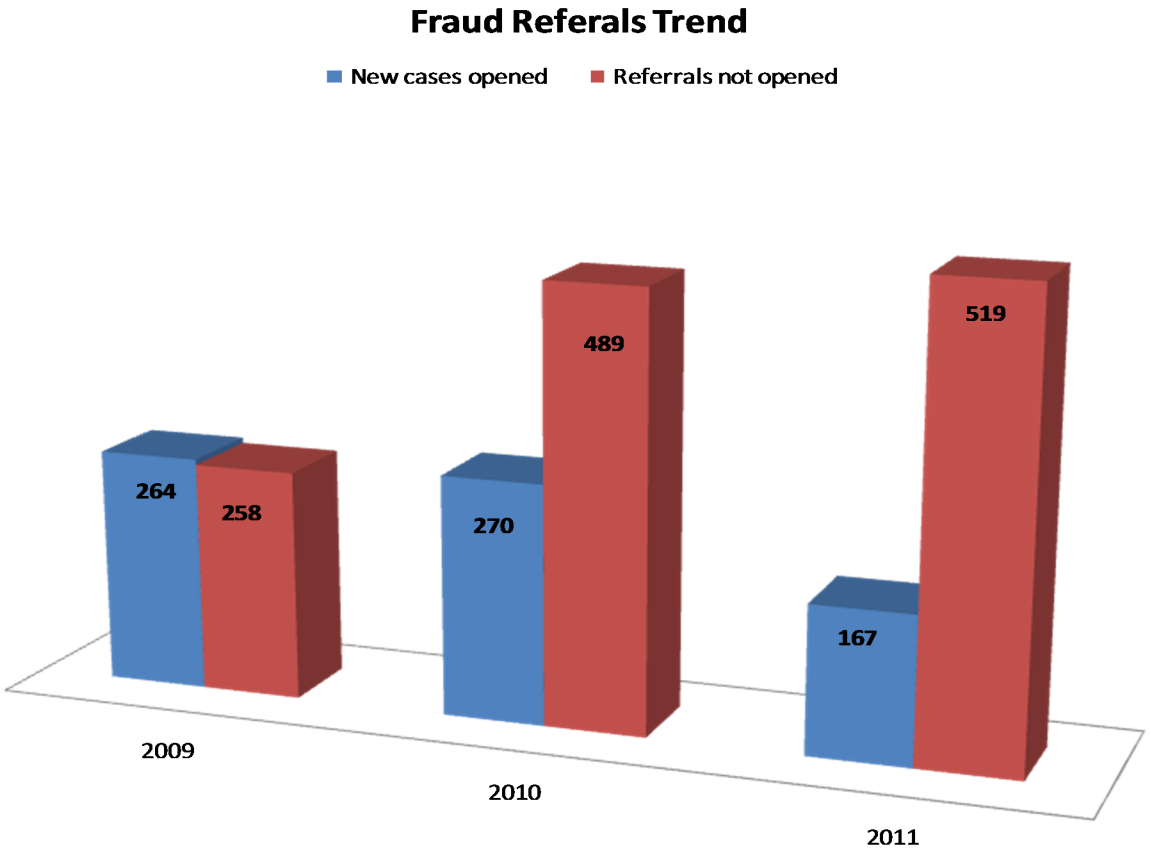
# Fraud Referrals Year in Review

## FY 2011 Referrals

The Insurance Fraud Division received 686 total referrals in FY 2011 compared to 759 referrals in FY 2010. This represents an decrease of 9 %. However FY 2010 had a significant increase of 31 % increase from FY 2009 the prior year.

Although all cases are reviewed, not all cases can be assigned for investigation. Cases are screened to identify those cases that have the best opportunity for successful prosecution.

| | |
|---|---|
| Cases Opened for Investigation: | 167 |
| Cases Investigated and Cleared or Closed without Prosecution: | 22 |
| Cases Investigated Resulting in Prosecution: | 80 |
| Cases Remaining Under Investigation (FY 2011 Only): | 65 |



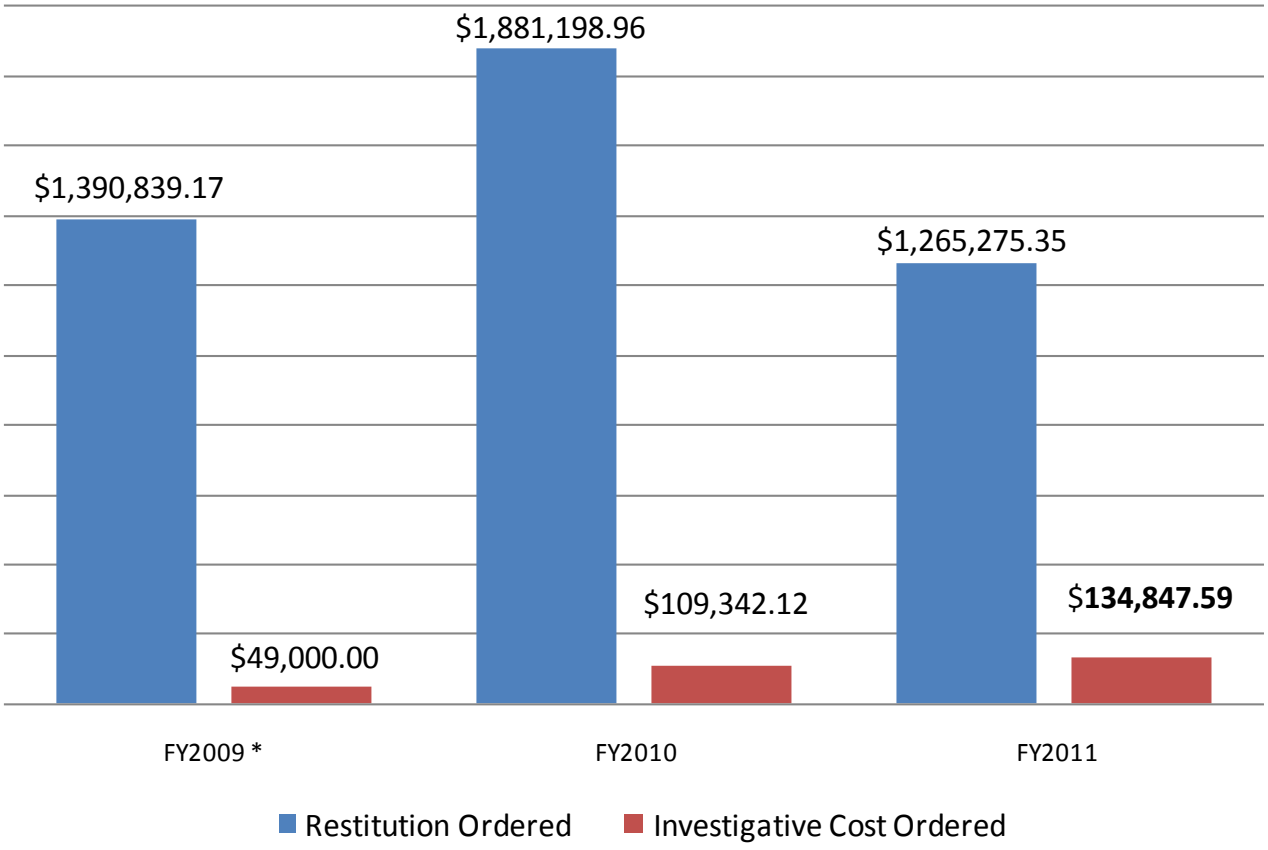
# Insurance Fraud Division Restitution Ordered Trend

The Insurance Fraud Division is a primary source for the collection and tracking of restitution paid in the cases prosecuted by the Division. The reported amounts below only account for the money that was paid through the Division. Additional payments of restitution paid through Adult Probation and Parole, directly through the courts, or other organizations has not been identified.

In FY 2011 the Insurance Fraud Division's prosecuted cases resulted in orders for defendants to pay $1,265,275 in restitution.

Additionally the Insurance Fraud Division is authorized by statute to collect investigative cost. In FY 2011 the Insurance Fraud Division's prosecuted cases resulted in orders for defendants to pay $134,848 in investigative costs.

## Restitution Ordered Trend Chart



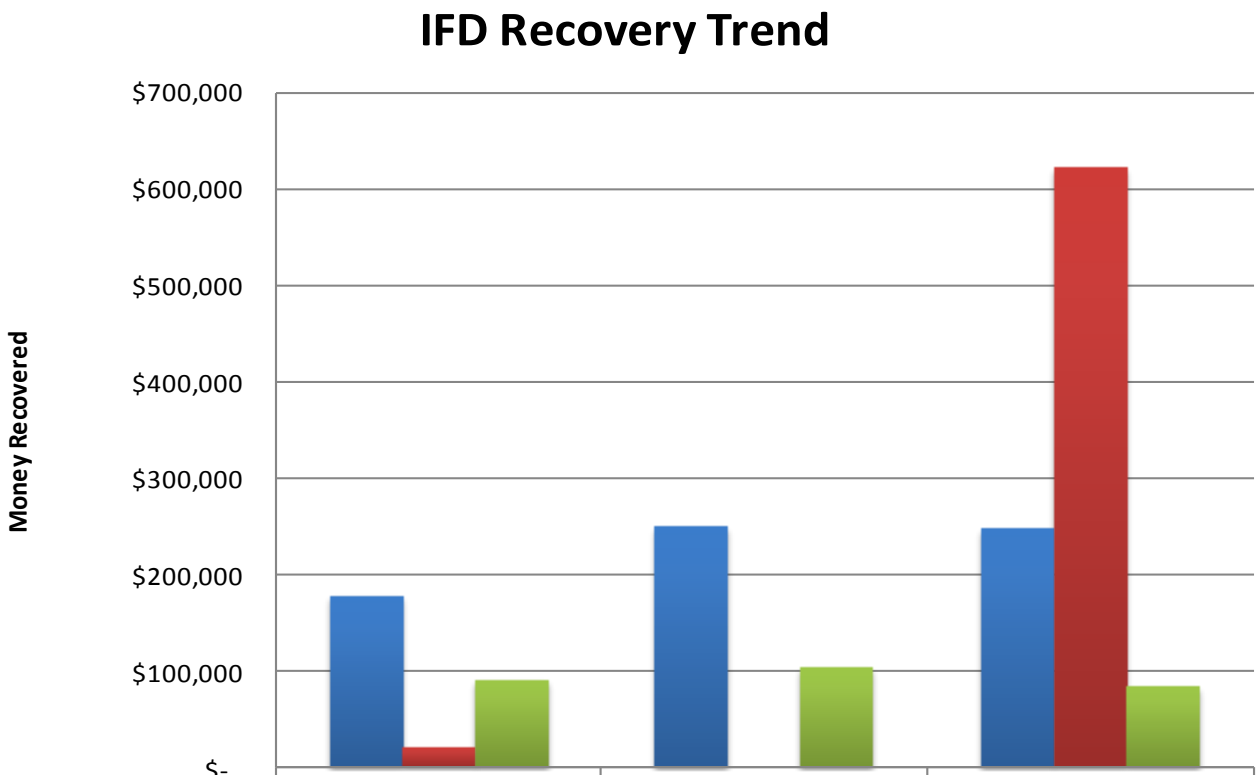
# Insurance Fraud Division Restitution Recovery Trend

In FY 2011 the Insurance Fraud Division received restitution payments from defendants totaling $248,516. This money was processed and paid out to victim insurance companies and other victims. In addition, $621,778 was received in restitution payments collected in a joint Federal Investigation which was paid out to victims.

In FY 2011 the Insurance Fraud Division received investigative cost reimbursement payments of $84,769. Investigative costs received by the Division are used to offset travel and investigative costs associated with conducting state wide investigations. Investigative cost restitution is beneficial in reducing the assessment cost to the insurance industry which funds the Fraud Division.

Except as ordered by the courts, money received by the Division is always paid toward defendant owed restitution prior to defendant owed investigative costs.

- Where possible, restitution payments not made through the IFD have been captured as outside restitution. This is restitution attributed to the IFD investigations but not paid through the IFD.

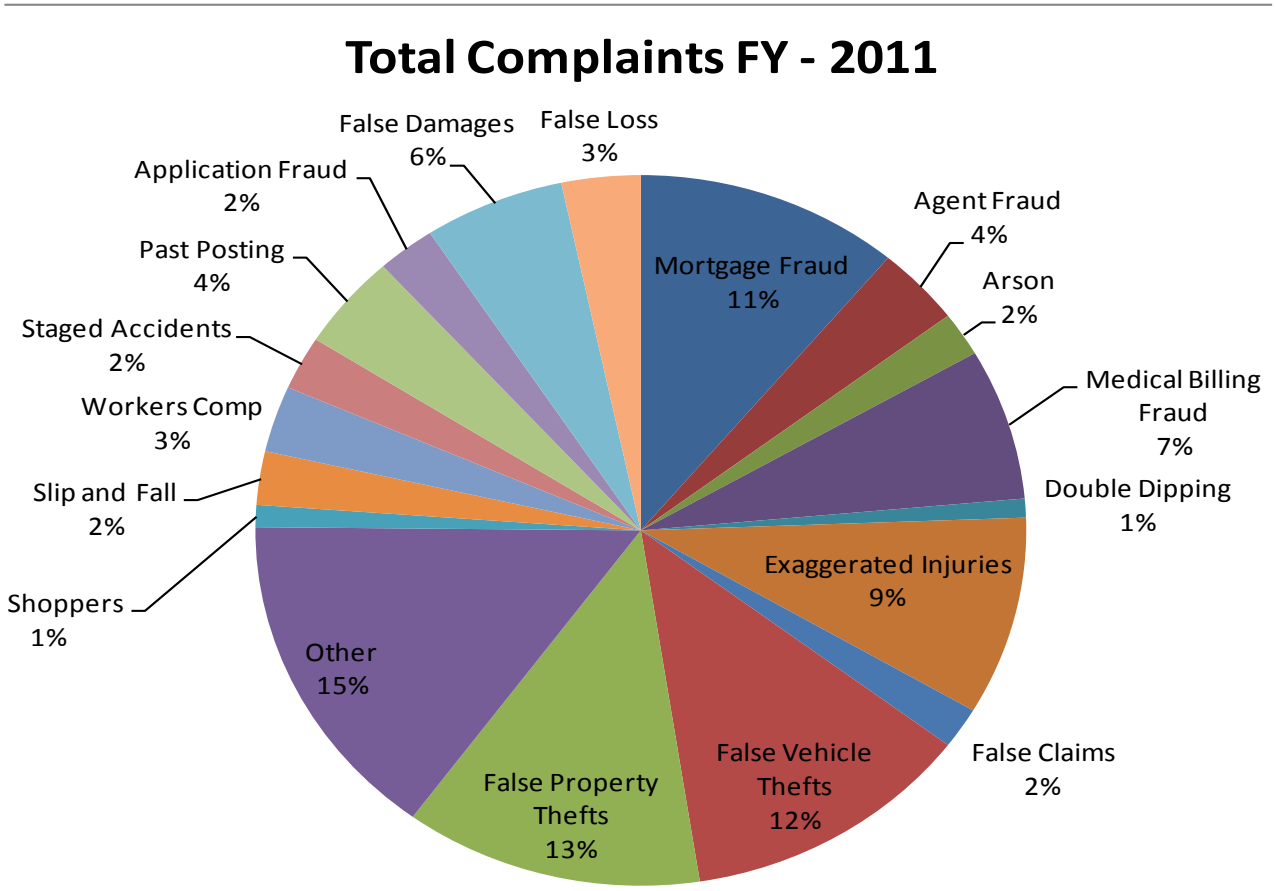



| | 2009 | 2010 | 2011 |
|---|---|---|---|
| IFD Restitution | $176,821 | $249,880 | $248,516 |
| Outside Restitution | $20,000 | $- | $621,778 |
| Investigative | $89,323 | $102,260 | $84,769 |

# Insurance Fraud Division Complaints Received

The most common case referrals during this report period were:

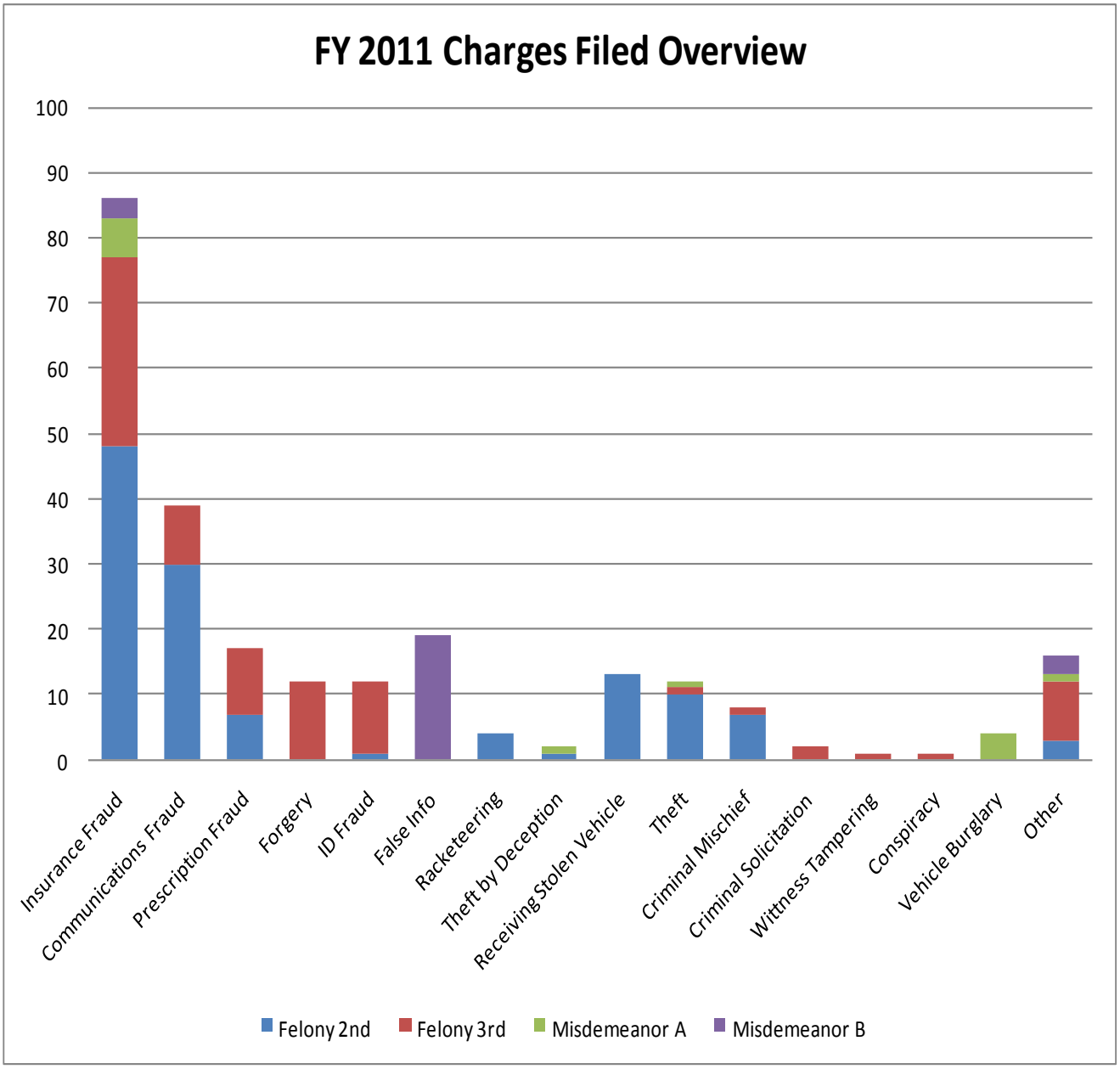
87 False Property Theft Claims
85 False Vehicle Theft Claims
77 Mortgage/Title Insurance Application Fraud
63 Exaggerated Injury Claims
41 False Damage Claims
30 Past Posting (Obtaining insurance after incident and claiming to have been insured prior)
27 Billing for Services Not Rendered Complaints
25 Agent Fraud Complaints
17 Staged Accident Claims
17 Slip and Fall Claims
14 Arson Claims
9 Prescription Abuse/Dr. Shopping Complaints



# Insurance Fraud Division Criminal Charges Filed

In FY 2011, the Insurance Fraud Division filed charges in 80 cases resulting in 241 criminal charges which are broken down as follows:

121 - 2nd Degree Felony Charges
86 - 3rd Degree Felony Charges
12 - Class "A" Misdemeanor Charges
22 - Class "B" Misdemeanor Charges

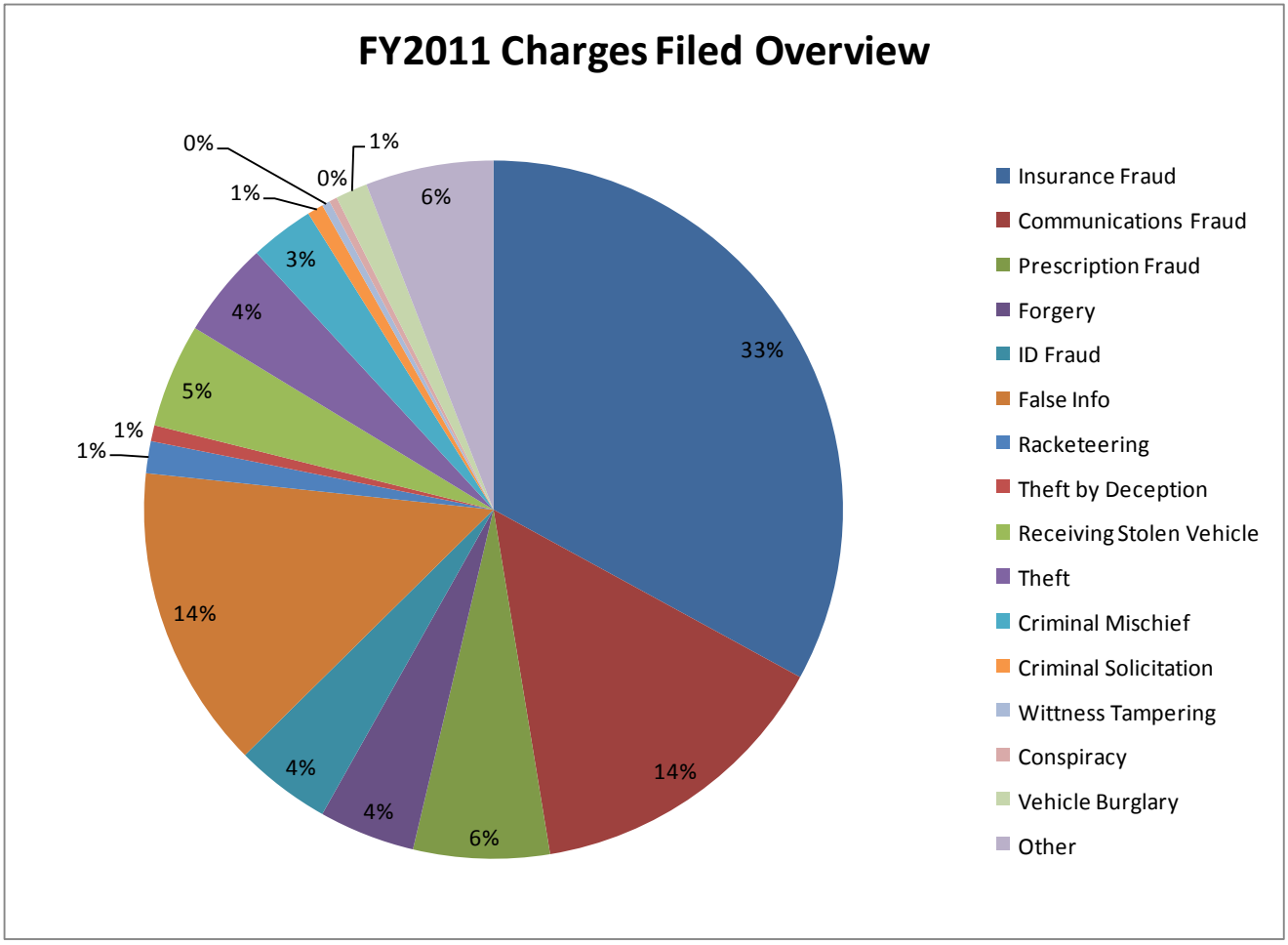


# Insurance Fraud Division Charges Filed by Category

In addition to Insurance Fraud, many cases involved other criminal charges as well.

The following chart identifies the frequency of other charges associated with the Insurance Fraud Cases that were submitted for prosecution.

Chart Clarification Note:
Insurance Fraud charges account for 33% of all charges. This does not mean that Insurance Fraud is only charged in 33% of the cases. Nearly 100% of our cases include an insurance fraud charge as one of the charges filed. In addition to Insurance Fraud, there are often many other associated crimes that occur. Communications Fraud as an example is a very common additional charge along with Insurance Fraud.



# Summary
# Of
# Criminal Cases Filed

## FY 2011